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HEADLINE: District of Columbia: First-Ever TIF Bonds to Be Issued for Downtown Complex

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BODY:

In a drive to promote economic development, the District of Columbia plans to issue \$64 million in unrated tax-exempt bonds in its first-ever tax increment financing deal for a downtown entertainment, retail and housing complex, and at least one other deal is currently in the works, sources say.

The TIF bonds for the \$195-million Gallery Place project are expected in the market in the first quarter of 2000, following a \$300 million tax revenue anticipation note sale that is expected to close before the end of this calendar year.

The district council gave its preliminary approval Dec. 7 to the Gallery Place entertainment complex -- which will feature a 16- to 21-screen, stadium-style AMC movie theatre, about 250,000 square feet of retail space, and 173 apartments.

The bonds are backed by future local sales taxes generated by the project, making the district a de facto partner with project developers.

Without such financing, the deal would not have happened, said Gerry Widdicombe, special projects manager in the district treasurer's office. "This is the use of future tax dollars to make something happen sooner than would happen later ... it's subsidizing office building land prices," he said.

The project -- a joint development between the Washington Metropolitan Transit Authority and Gallery Place Associates, a partnership of Western Development Corp.; the John Akridge Cos.; and Williams Jackson Ewing -- is expected to draw an additional six million visitors per year to the Gallery Place-Chinatown area in northwest Washington. It is projected to generate about 600 construction jobs, nearly 800 permanent jobs, an annual payroll of approximately \$45 million, and \$11 million in new sales and property tax revenues for the district in the first year of operation, according to Western Development.

Of the \$64 million issue, \$46 million of the proceeds would be available for the project, while the other \$18 million would be for 2.5 years of capitalized interest and a year's debt service reserve, said Widdicombe.

Lyle Blanchard, aide to Jack Evans, chairman of the district council's finance and revenue committee, said the district will come out ahead, receiving \$3 million in net taxes in the second full year of operation. Widdicombe said the assumption of \$3 million in added revenues for the district is based on continuation of the current economic climate.

Bill Highsmith, an economic policy aide to Mayor Anthony A. Williams, said an unreleased feasibility study showed the project will bring in about \$9.5 million to the District's sales tax coffers in its second year of operation. "We feel confident that sales tax revenues will be sufficient to service the debt, and lead to spin off taxes from other businesses that relocate or improve their traffic," Highsmith said.

Rating agencies, which this spring raised the district back to investment-grade status, agreed that economic development is important for the district to continue improving its tax base. "The district is still in enough of a tenuous state economically that to get such a complex in the downtown area you might have to do an incentive," said Kathleen Holt, an analyst at Moody's Investors Service.

Richard Raphael, executive managing director at Fitch IBCA, said that stimulating the economy is important, but cautioned that the district should not go too far when carving up the tax base that is needed to fund general operations.

PaineWebber Inc. will be the lead underwriter, and Lehman Brothers along with Siebert Brandford Shank & Co. will also be involved in underwriting the deal, said Widdicombe.

District officials are also considering using the TIF device to help finance the proposed Mandarin Hotel, a complex proposed for southwest Washington.

Amy B. Resnick contributed to this article.

